



January 8, 2012

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Quick now, how many of you know the meaning of the title to the song you probably heard or sang many times over on New Year's Eve? With the help of Google, we can tell you it translates literally as "old long since." It can be more loosely translated as "for (the sake of) old times." In addition to New Year's Eve, it is also sung at funerals, graduations and as a farewell or ending to other occasions. Congress could have sung it at 2 a.m. on January 1, 2013 as they brought the fiscal cliff legislation to a close. Talk about last minute. Were we saved? Hardly. Some issues were resolved:

1. The Bush tax cuts of 2001 and 2003 were extended permanently (except nothing is permanent in Washington) for all taxpayers earning less than \$400,000 for those filing as single or \$450,000 for those filing jointly. This is very positive as it keeps the money from those tax cuts in the pockets of those who need it most, the middle class. It will also aid more small businesses than it would have under the other proposal using a \$200,000/\$250,000 minimum cut-off. Those taxpayers earning more than \$400,000/\$450,000 will not be greatly impacted as they will find ways (legally) to hide income. As for increased government revenues, they will be minimal.
2. The 2 percent reduction in employee Social Security tax withholding is rescinded. The rate will return to the prior 6.2 percent level for both employees and employers. This will result in less net pay, but at least it does not continue to rob from the Social Security fund. Temporary tax reductions or outright rebates never work as a means to stimulate the economy.
3. The tax rate on capital gains and qualified dividends will be increased permanently to 20 percent for those over the aforementioned income levels. The rate will remain at 15 percent for those under the income levels. This is a positive for retirees living on a fixed income.
4. The educational tax credits for individuals were extended through 2017. With the cost of education skyrocketing this credit is very beneficial.
5. The Medicare Physician Payment law was extended through 2013. This will guarantee seniors continued access to their doctors. Medicare physician's payment rates were scheduled to be reduced by 26.5 percent at the end of 2012. This benefit will most likely change when the affordable Care Act takes effect in January 1, 2014, but at least seniors will have another year to prepare for more permanent changes.
6. The estate tax exemptions of \$5,000,000 adjusted for inflation were made permanent and the top rate was increased to 40% from 35%. Positive change as it gives estate planners clarity and enables ownership retention of families with small businesses.
7. Small businesses were aided by extension of depreciation rules and extension of research and development credits. There are several other benefits in place for small businesses, but most of them were short-term extensions – helpful at least through this year.

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8. The deduction for state and local taxes was extended through 2013. This is very beneficial for people living in high tax states such as California and New York.

There are other lesser items in this bill that are too numerous to go into, but all in all not a bad last minute piece of legislation in terms of maintaining the standards of living for the middle class.

However, that was not the real fiscal cliff. Nancy Pelosi and others have stated that this was not the end of the tax battle and that there will be more taxes or increases coming our way. The government does not seem to be paying attention to what is happening in Europe. France, for one example, is pushing to raise the tax rate on the wealthy to 75% to raise government revenue. The wealthy are leaving France (and England too) for healthier tax climates. Russia has a sign out welcoming all disgruntled taxpayers. The French film actor Gérard Depardieu recently displayed his new Russian passport after he abandoned his homeland in a tax dispute. The Kremlin has opened its arms to all high income earners to take advantage of its 13 percent flat tax rate. Russia already ranks seventh in millionaires worth more than \$30 million. They expect to have 1.2 million by 2020. The US currently has 5.2 million millionaires. Russia's flat tax rate has helped bring its budget back into balance. Its revenues from income taxes have more than doubled since the single low tax rate was instated (IBW January 7, 2013).

So, the battle over the real fiscal cliff begins now with debates beginning on tax rates, particularly on corporate rates, as we need to find a way to keep our money at home creating more jobs for our struggling work force. Also at issue will be debates on how to control our deficit and our overall government debt, fast approaching \$16.5 trillion. The government needs to get a handle on the myriad number of regulations that are hampering our economic growth. These are the important issues facing America today, and we will be exploring these issues in more depth in future letters.

The economy created 155,000 new jobs in December and the unemployment rate remained unchanged at 7.8%. We seem to be stuck at that number which is showing growth but not near enough. We need to create 250,000 to 300,000 jobs each month to show a decent rate of growth. Construction and oil and gas drilling have been the bright spots in the economy, and the financial sector is recovering from the recent financial collapse. The US stock market is likely to be the best place to invest this year.

Random Thought for January 2013: “Any man who thinks he can be happy and prosperous by letting the government take care of him better take a closer look at the American Indian.”

Henry Ford

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